

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-02 PRS-01 AGRE-00 /100 W

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R 281350Z JUL 77

FM AMCONSUL MILAN

TO SECSTATE WASHDC 5518

INFO AMEMBASSY ROME

AMCONSUL GENOA

AMCONSUL TURIN

UNCLAS SECTION 1 OF 2 MILAN 1242

E.O. 11652: N/A

TAGS: ECON, ELAB, IT

SUBJECT: NORTHERN ITALY ECONOMY -- A PRE-VACATION REVIEW

1. SUMMARY. AS ECONOMIC ACTIVITY IN THIS NORTHERN ITALIAN INDUSTRIAL REGION GRINDS TO CRAWL PRIOR TO AUGUST VACATION EXODUS, LOCAL BUSINESSMEN TELL US THAT CONSUMER DEMAND HAS RAPIDLY BEGUN TO WEAKEN FROM ITS HIGH LEVELS OF EARLY THIS YEAR. BUT THEY ALSO SEEM MORE OPTIMISTIC THAN FOR MANY MONTHS. ALTHOUGH PRODUCTION OF CONSUMER GOODS IS DROPPING IN RESPONSE TO LOWER DEMAND, MANY REASON THAT LOWER CONSUMPTION LEVELS MEAN FEWER IMPORTS, MORE PRICE MODERATION, AND A MORE STABLE LIRA. EVEN MORE IMPORTANT, LABOR SAID TO BE EASIER TO WORK WITH THAN BEFORE. MOREOVER, BUSINESS IS STILL GOOD FOR MANY SMALL AND MEDIUM-SIZED COMPANIES. NOT THAT EVERYONE IS OPTIMISTIC. SOME COMPLAIN THAT BASIC UNDERLYING PROBLEMS IN ECOOMY ARE YET TO BE CONFRONTED. END SUMMARY.

2. IN DISCUSSIONS DURING PAST FEW WEEKS, BUSINESSMEN, INDUSTRIALISTS, BANKERS, JOURNALISTS, AND TRADE
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ASSOCIATIONS HAVE TOLD US THAT CONSUMER DEMAND IS MARKEDLY DOWN FROM LAT YEAR. SALES OF CLOTHING AND DURABLES ARE SUBSTANTIALLY LOWER. DIRECTOR OF ONE LARGE NATIONAL CHAIN OF SUPERMARKETS AND DEPARTMENT STORES SAID CLOTHING SALES WERE 20 PERCENT LESS DURING THE FIRST FIFTEEN DAYS OF JULY THAN YEAR EARLIER, APPLIANCES BARELY MOVING, AND LEISURE ITEMS (CAMPING AND

SPORTS EQUIPMENT, ETC.) COMPLETELY STAGNANT. FOOD SALES, HE ESTIMATED, WERE DOWN TWO TO THREE PERCENT. HEAD OF LARGE AND GENERALLY PROFITABLE COTTON MILL SAID ORDERS WERE FRACTION OF WHAT THEY WERE YEAR AGO THIS TIME. MILL WAS LETTING WORKERS GO TWO WEEKS EARLY FOR AUGUST VACATION.

3. EVEN SOME SECOND TIER INDUSTRIES ARE BEGINNING TO FEEL EFFECTS. ONE CHEMICAL INDUSTRY SPOKESMAN TOLD US HE EXPECTS SLOWER SALES DURING SECOND HALF 1976 TO COUNTERBALANCE YEAR'S EARLIER GAINS. NET RESULT WILL BE ZERO GROWTH FOR 1977. ANOTHER BUSINESSMAN IN HEAVY EQUIPMENT INDUSTRY SAID THAT IN ORDER TO EASE PRESSURE ON ALREADY HEAVY INVENTORIES HIS COMPANY IS ASKING FOR GOVERNMENT WAGE SUBSIDIZATION FOR WORKERS IT WANTS TO IDLE.

4. LOCAL OBSERVERS SAY REASON FOR WEAKENED DEMAND IS CLEAR. WORKER INCOME IS FALLING. ONE LARGE RETAILER TOLD US THAT MIDDLE-CLASS CONSUMER FORCED TO CUT BACK SINCE NO LONGER AS COMPLETELY INSULATED FROM INFLATION AND PAYING MUCH HIGHER TAXES. MOST AGREE THAT GOVERNMENT'S AUSTERITY PACKAGE WITH ITS EXPLICIT DESIGN FOR CURTAILING PRIVATE CONSUMPTION IS BEGINNING TO TAKE EFFECT. BETTER PAID WORKERS ARE FINDING THEIR AUTOMATIC COST OF LIVING ADJUSTMENTS BEING TURNED INTO NON-NEGOTIABLE BONDS. AND UNCLASSIFIED

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HIGHER TAXES ON GASOLINE AND OTHER ITEMS HAVE FURTHER ERODED DISPOSABLE INCOME ACROSS THE BOARD.

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TO SECSTATE WASHDC 5519
INFO AMEMBASSY ROME
AMCONSUL GENOA
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5. BUT ALTHOUGH SLACK DEMAND HAS ALREADY AFFECTED MANY FIRMS, PARTICULARLY IN CONSUMER GOODS SECTOR, ECONOMY IS STILL FLORID AND FAR FROM STAGNANT. SMALL AND MEDIUM-SIZED FIRMS ARE RESPONSIBLE FOR MUCH OF THIS, AND THEY ARE BACKBONE OF LOCAL ECONOMY. LOMBARDY MANUFACTURING FIRMS HAVING FEWER THAN 100 WORKERS, FOR EXAMPLE, COUNT FOR OVER 90 PERCENT OF FIRMS, 50 PERCENT OF EMPLOYMENT, AND 40 PERCENT OF PRODUCTION IN MANUFACTURING. (SMALL INDUSTRY PLAYS SIMILAR ROLE THROUGHOUT WHOLE ECONOMY.) THESE FIRMS ARE FLEXIBLE TO CHANGING MARKET CONDITIONS, HAVE FEW OR NO LABOR PROBLEMS, AND ARE STILL VERY PROFITABLE. THIS IS ESPECIALLY TRUE OF THOSE CATERING TO FOREIGN MARKET WHO HUSTLE AFTER ORDERS AND WORK ON SUNDAYS TO MEET THEM IF NECESSARY. DATA PROCESSING PEOPLE WHO SELL SMALL OFFICE SYSTEMS TO THESE FIRMS TELL US THEY ARE DOING LADOFFICE BUSINESS THIS YEAR.

6. NOT ONLY THESE SMALLER FLOURISHING BUSINESSES BUT EVEN CONSUMER ORIENTED INDUSTRIES AND OTHERS WHO COMPALIN OF SMALLER ORDERS AND SALES ADD THAT THEY ARE OPTIMISTIC OVER FUTURE. "OUR COSTS ARE MORE CONTROLLABLE NOW,"
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EXPLAINED EXECUTIVE OF FIRM WHICH HAS HAD NUMEROUS LABOR DIFFICULTIES IN RECENT YEARS. HE CONTINUED THAT UNIONS BETTER UNDERSTAND HIS COMPANY'S PROBLEMS MAKING IT POSSIBLE NOW TO REACH CONSTRUCTIVE AGREEMENTS WITH THEM. THIS IS COMMON THEME. MANY SAY THAT LABOR AT ALL LEVELS HAS BECOME MUCH EASIER TO WRK WITH. TWO LARGE EMPLOYERS TOLD US THAT BEYOND SCHEDULED NATIONAL STRIKES THEY HAVE NOT HAD SERIOUS LABOR PROBLEMS FOR MANY MONTHS. OTHER NOTED THAT WHEN SMALLER COMPANY WORKERS DO STRIKE, THEY ARE ON FLOOR FOLLOWING SATURDAY MAKING UP LOST PRODUCTION. AND NO ONE SEES CHANGE IN THIS TREND FOR NEAR FUTURE.

7. FACT THAT CONSUMPTION IS FALLING WITH RESULTING

BETTERMENT IN TRADE BALANCE AND RECEDING PRICE PRESSURE ALSO ADDS TO OPTIMISM, AS DOES CURRENT STABILITY OF LIRA.

8. NEVERTHELESS THERE REMAIN SPRINKLING OF SOBER-MINED ANALYSTS WHO ARE NOT CONVINCED THAT THIS YEAR'S AUSTERITY WILL BRING NEXT YEAR'S PROSPERITY. NOTHING HAS YET BEEN DONE ABOUT BAISIC UNDERLYING PROBLEMS IN ITALIAN ECONOMY, ONE ECONOMIC JOURNALIST TOLD US. HE THOUGHT COSMETIC WORK THIS YEAR WOULD ONLY COVER ECONOMY'S INFIRMITIES UNTIL THEY AGAIN REACHED SURFACE,INEFFICIENT PUBLICLY-OWNED INDUSTRIES, LABOR IMMOBILITY, ARTIFICIAL WAGE LEVEL DISCREPANCIES AMONG INDUSTRIES, AND WAGE INDEXATION ALL REMAIN PROBLEMS SAID TO BE BEGGING FOR SOLUTION.

9. THUS ALTHOUGH LOWER INCOME AND FALLING DEMAND WILL PREVENT REPEAT OF 176'S SHARP PRODUCTION GAINS, MOST UNCLASSIFIED

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BUSINESSMEN WITH WHOM WE TALK SAY OVERALL TREND IS TOWARD IMPROVEMENT IN BUSINESS CLIMATE. ONLY MAJOR CONCERN FOR SHORT TERM IS THAT FOREIGN SALES, SO IMPORTANT TO ITALIAN FIRMS, MAY NOT CONTINUE STRONG. THERE IS PLENTY OF AWARENESS THAT THRIVING ECONOMIES ELSEWHERE IN EUROPE AND IN U.S. ARE IMPORTANT TO ITALY. EVEN THIS, HOWEVER, IS NOT IMMEDIATE PROBLEM. WITH VACATION TIME UPON US, BUSINESS IS WINDING DOWN, CITIES BECOMING EMPTY, AND ALL BUT LIFE-AND-DEATH DECISIONS PUT OFF UNTIL AUGUST HAS RUN ITS COURSE.WRIGHT

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